
(86) Remuneration report

Principles of the remuneration of the Management Board

The Supervisory Board determines the structure and amount of remuneration for the members of the Management Board. The Supervisory Board defines the structure of salaries and other remuneration components for the members of the Management Board.

In view of the conclusion of the agreement entered into with the Financial Markets Stabilisation Fund (SoFFin), the members of the Management Board waived the portion of the contractually fixed remuneration exceeding € 500,000 as well as the variable remuneration component for the financial years 2009 and 2010, respectively.

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board. In addition to fixed salary components, which are paid in twelve identical monthly instalments, the members of the Management Board receive a bonus in form of a variable remuneration and are granted phantom shares as a long-term remuneration. The basis for this variable remuneration component is a target system, largely based on net income (of the Group) as reported under International Financial Reporting Standards (IFRS), as well as qualitative and quantitative targets, which are redefined annually. The phantom shares granted as a long-term component may be exercised in whole or in part during an exercise period of four years after the reference date, up to one fourth per year. They may be exercised for the first time in the year of allocation, in each case within five working days after the publication of

the quarterly report. Phantom shares not exercised in a particular year may be exercised in the subsequent year. Upon exercise, the relevant proportion of virtual shares is converted at the weighted average price as reported by Bloomberg on the exercise date. If dividends are paid on the Company's shares during the exercise period, a corresponding distribution is made and classified as other remuneration.

Remuneration

Remuneration of the members of the Management Board can be broken down as follows:

	Year	Fixed remuneration	Cash bonus	Other ¹⁾	Total
Euro					
Dr Wolf Schumacher	2009	500,000.00	–	25,269.47	525,269.47
	2008	725,000.04	712,500.00	22,864.84	1,460,364.88
Norbert Kickum	2009	500,000.00	–	29,161.42	529,161.42
	2008	562,500.03	243,750.00	25,018.20	831,268.23
Hermann J. Merkens	2009	500,000.00	–	48,901.86	548,901.86
	2008	592,500.03	243,750.00	33,288.31	869,538.34
Thomas Ortmanns	2009	500,000.00	–	23,323.02	523,323.02
	2008	562,500.03	243,750.00	20,595.74	826,845.77
Total	2009	2,000,000.00	–	126,655.77	2,126,655.77
	2008	2,442,500.13	1,443,750.00	101,767.09	3,988,017.22

¹⁾ Other remuneration includes payments (in particular for company cars) in the amount of € 73,146.71 for 2009 (2008: € 58,233.74) as well as benefits related to social security contributions totalling € 43,922.16 for 2009 (2008: € 42,794.40).

No benefits were granted or committed to any member of the Management Board by third parties with respect to his Management Board activities during the year under review.

Long-term component

In 2009, the members of the Management Board did not receive payments from long-term components pursuant to the terms and conditions of the share-based payment transactions, based on the agreement entered into with SoFFin.

	Year	Long-term component	
		Value at award date	Quantity
Euro			
Dr Wolf Schumacher	2009	0.00	0.00
	2008	375,000.00	59,618.44 ¹⁾
Norbert Kickum	2009	0.00	0.00
	2008	375,000.00	59,618.44 ¹⁾
Hermann J. Merkens	2009	0.00	0.00
	2008	375,000.00	59,618.44 ¹⁾
Thomas Ortmanns	2009	0.00	0.00
	2008	375,000.00	59,618.44 ¹⁾

¹⁾ In the remuneration report for 2008, the conversion of granted € amounts into a certain number of phantom shares was based on the share price as at 31 December 2008 (€ 5.75). The share price upon granting the phantom shares was € 6.29. The holding period for these phantom shares is three years; the subsequent exercise period is also three years.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank. Accordingly, the members of the Management Board are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service. The pension claims listed below are vested.

The following overview shows the pension claims of the members of the Management Board as at the balance sheet date:

	31 Dec 2009	31 Dec 2008
Euro 000's		
Dr Wolf Schumacher	350	350
Norbert Kickum	200	200
Hermann J. Merkens	200	200
Thomas Ortmanns	200	200
Total	950	950

Service cost incurred in the financial year 2009 in connection with the pension claims of members of the Management Board totalled € 698,000 (2008: € 491,000).

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 20 % and 10 %, respectively.

Aareal Bank intends to contribute parts of the assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA) in 2010. This is to ensure an improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensionsversicherungsverein; PSVaG).

Members of the Management Board who joined the Company before 1 January 2005 are entitled to receive contractual pension payments before they reach the age of 60 when they have served for a period of five years, in case the bank rejects an extension of their service contract.

The pension provisions for active and former members of the Management Board and their surviving dependants were increased by € 1,093,000 (2008: € 1,689,000)¹⁾ in the year under review. The total amount of pension provisions was € 10,633,000 (2008: € 10,640,000)¹⁾. Of that amount, € 8,354,000 related to former members of the Management Board and their surviving dependants (2008: € 8,190,000)¹⁾. Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 523,000 (2008: € 510,000).

¹⁾ The figures reported represent the provisions determined pursuant to the provisions of the German Commercial Code (HGB). The pension provisions as determined under IFRS cannot be allocated to individual groups of persons due to the application of the corridor approach.

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements.

In the case of a change of control and a resulting loss of membership in the Management Board, the members affected receive, in settlement of their total remuneration, their fixed remuneration, as agreed in their employment contracts, as well as a contractually agreed compensation for the variable remuneration, paid in monthly instalments during the remaining term of the agreements. In addition, the members of the Management Board receive a lump-sum payment of up to approx. 45 % (2008: 45 %) of their fixed remuneration for 2009, while the Chairman receives 70 % (2008: 70 %) of his fixed remuneration for 2009.

If, in case of a change of control, members of the Management Board resign from office or are not willing to extend their office in spite of an offer on the part of the Company, the respective member of the Management Board receives, in settlement of the total remuneration, an amount not exceeding 50 % of the relevant fixed remuneration, as agreed in the employment contracts, and the contractually agreed compensation for the variable remuneration. In addition, the relevant member of the Management Board receives a lump-sum payment of up to approx. 32.5 % (2008: 32.5 %) of his fixed remuneration for 2009, while the Chairman receives 45 % (2008: 45 %) of his fixed remuneration for 2009.

Principles of the remuneration of the Supervisory Board

The remuneration of the Supervisory Board is specified in Section 9 of the Memorandum and Articles of Association of Aareal Bank AG. The resolution adopted by the Annual General Meeting on 23 May 2006, which resulted in a change of the remuneration system of the Supervisory Board, currently applies.

The total remuneration of the Supervisory Board comprises a fixed and a variable remuneration component comparable to the remuneration package of the Management Board. The variable remuneration is performance-related and comprises a short-term and a long-term component.

The fixed remuneration is € 20,000 p. a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive twice the amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 10,000 p. a. for each membership in a Supervisory Board committee (with the exception of the Committee for Urgent Decisions, which is a part of the Credit and Market Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration shall be increased instead by € 20,000 p. a. for Chairmanship of a Supervisory Board committee (also with the exception of the Committee for Urgent Decisions, which is a part of the Credit and Market Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration component of a Supervisory Board member, including the remuneration for the Chairmanship of a Supervisory Board committee, forms a basis for assessing the performance-related remuneration.

The performance-related remuneration only comes into effect if a dividend of not less than € 0.20 per share is paid for the financial year in question.

The short-term performance-related remuneration currently amounts to 12.5 % of the individual assessment basis for each full € 50 million of the consolidated net income attributable to shareholders of Aareal Bank AG as reported in the Group income statement. However, it may not exceed 50 % of the individual assessment basis.

The long-term performance-related remuneration of a Supervisory Board member amounts to 12.5 % of the individual assessment basis for each 10 % increase in the consolidated net income attributable to shareholders of Aareal Bank AG (as reported in the consolidated income statement) over the unweighted average of the consolidated net income attributable to shareholders of Aareal Bank AG for the three previous full financial years. The long-term performance-related remuneration is not paid if the average value is negative. On this basis, the members of the Supervisory Board are not entitled to a long-term performance-related remuneration for the 2009 financial year.

The maximum long-term performance-related remuneration is capped at 50 % of the individual assessment basis, so that the aggregate variable remuneration may amount to a maximum of 100 % of the fixed remuneration component.

The fixed remuneration is due at the end of each financial year. The variable remuneration component is due after the Annual General Meeting in which a resolution is passed on the appropriation of net income for the relevant financial year. The bank reimburses the VAT amounts to be paid on the remuneration.

In accordance with the methodology presented, the members of the Supervisory Board receive a fixed remuneration for the 2009 financial year in the amount of € 559,300.00, which is the same amount paid in 2008. As a result of the agreement entered into with SoFFin, the management proposes not to pay dividends for the financial year 2009. Therefore, as in the previous year, no variable remuneration will be paid to the members of the Supervisory Board.

The individual amount of the remuneration for the Supervisory Board is shown in the following table. The figures in the table include the reimbursement for VAT (19 %).

	Year	Fixed remuneration	Variable remuneration	Total
Euro				
Hans W. Reich, Chairman	2009	107,100.00	–	107,100.00
	2008	107,100.00	–	107,100.00
Erwin Flieger, Deputy Chairman	2009	59,500.00	–	59,500.00
	2008	59,500.00	–	59,500.00
York-Detlef Bülow, Deputy Chairman	2009	59,500.00	–	59,500.00
	2008	59,500.00	–	59,500.00
Tamara Birke	2009	35,700.00	–	35,700.00
	2008	35,700.00	–	35,700.00
Thomas Hawel	2009	23,800.00	–	23,800.00
	2008	23,800.00	–	23,800.00
Helmut Wagner	2009	23,800.00	–	23,800.00
	2008	23,800.00	–	23,800.00
Christian Graf von Bassewitz	2009	47,600.00	–	47,600.00
	2008	47,600.00	–	47,600.00
Manfred Behrens	2009	23,800.00	–	23,800.00
	2008	23,800.00	–	23,800.00
Joachim Neupel	2009	59,500.00	–	59,500.00
	2008	59,500.00	–	59,500.00
Dr Herbert Lohneiß	2009	35,700.00	–	35,700.00
	2008	35,700.00	–	35,700.00
Prof Dr Stephan Schüller	2009	47,600.00	–	47,600.00
	2008	47,600.00	–	47,600.00
Wolf R. Thiel	2009	35,700.00	–	35,700.00
	2008	35,700.00	–	35,700.00
Total	2009	559,300.00	–	559,300.00
	2008	559,300.00	–	559,300.00

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2009. Therefore, no additional remuneration was paid.

Principles of the remuneration of employees of Aareal Bank Group

The remuneration systems for the employees of Aareal Bank Group are based on the business strategy and the long-term and sustainably positive business and earnings development of the Group. Incentives for excessive risk-taking are avoided by capping variable remuneration. The remuneration systems were agreed with the representative bodies for employees elected for each Group company and then published. In order to ensure an appropriate individual remuneration, salaries are compared on a regular basis. The objective is to pay remuneration to Group employees that is both adequate and attractive.

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers (heads of divisions) of Aareal Bank AG.

Total remuneration of executives in key positions is analysed below:

	01 Jan-31 Dec 2009	01 Jan-31 Dec 2008
Euro 000's		
Salaries and other short-term benefits	16,821	21,050
Post-employment benefits	1,553	1,198
Other long-term benefits	45	258
Termination benefits	–	406
Share-based remuneration	1,004	2,504
Total	19,423	25,416

Cash-settled share-based payment

a) Description of the cash-settled share-based payment transactions

Key executive staff members were granted cash-settled share-based remuneration (so-called phantom shares or virtual shares) as a variable remuneration component. The relevant share plans are subject to slightly different regulations with respect to term and exercise criteria.

Phantom share plan for members of the Management Board of Aareal Bank AG / Long-term Component

In the years prior to 2009, the members of the Management Board were granted phantom shares in accordance with the following regulations:

- The beneficiaries receive a remuneration denominated in euro, which will be converted into an equivalent number of phantom shares. The conversion is based on the weighted average price during the five (Xetra) trading days after the publication of the annual financial statements adopted by the Supervisory Board.
- The phantom shares are subject to a holding period of three years in which they may not be exercised.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- With respect to phantom shares that have not been exercised, beneficiaries receive for each phantom share not yet exercised a cash payment equivalent to the amount of the approved dividend.
- Under the phantom share plans, phantom shares may be exercised during the three years following the holding period four times per year within five days after the publication of the quarterly report.
- No phantom shares as defined by the currently applicable contractual regulations have been granted to members of the Management Board.

Phantom share plan (virtual shares) for the key executive staff (excluding members of the Management Board of Aareal Bank AG)

Key executive staff members, excluding members of the Management Board of Aareal Bank AG, are granted virtual shares in accordance with the following rules:

- The beneficiaries receive a remuneration denominated in euro which will be converted into an equivalent number of virtual shares. The basis for conversion is the average price of Aareal Bank AG share on the date of publication of the annual report and the four subsequent trading days (subscription price).

- The shares resulting from such a grant are automatically exercised in the three years following the year of grant, with one third being exercised in each year.
- The basis for exercise is the average price of the Aareal Bank AG share on the date of publication of the annual report and the four subsequent trading days.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- With respect to virtual shares that have not been exercised, beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend.

b) Valuation model and valuation assumptions

Valuation model

The cash-settled share-based payment transactions have the following structure: an option may be exercised during a pre-determined exercise period at pre-determined dates, subject to a holding period, if applicable. The exercise period varies according to the relevant payment transaction. For example, the exercise period for the Management Board pursuant to Long-term Component I amounts to three years following a holding period of three years.

According to the terms and conditions of the equity-settled share-based payment transactions, a dividend will be paid for each phantom or virtual share, irrespective of whether the option has been exercised or not. This means that an earlier exercise does not result in a separate claim for cash settlement in the amount of the dividend. Therefore, there is no reason for an earlier exercise of an option due to cash settlement. As can be demonstrated, it may always make sense to hold an option until the end of the exercise period. Therefore, the phantom or virtual share is held until final maturity. The Black-Scholes valuation model can be applied.

Valuation assumptions

The following probabilities for elementary events are used for the calculation of the probabilities of the occurrence of the exercise events:

- Death or invalidity: 0.2 % p.a. (members of the Management Board) and 0.175 % p.a. (executive staff)
- Termination of contract by employee: 3 % p.a. (members of the Management Board) and 0.0 % p.a. (executive staff)
- Termination of contract by employer (due to operational requirements or change of ownership): 1 % p.a. (members of the Management Board) and 0.0 % p.a. (executive staff)

The vesting of the rights is based on the individual equity-settled share-based payment transactions. It has been assumed, in the event of death or invalidity, that the outstanding option rights may be exercised immediately and in the full amount, irrespective of the extent of the rights earned until that date. Options are valued using the Black-Scholes model. The relevant indicators for the valuation are (+: value of the option increases when the relevant indicator increases)

- the price of the Aareal Bank share on the valuation date (+)
- the exercise price of the phantom or virtual share on the exercise date (-)
- the term to exercise date (+)
- the volatility of the change (in percent) of the price of the Aareal Bank share (+)
- the risk-free interest rate for a safe investment until the exercise date (+)

The Xetra closing price of the Aareal Bank share is determined on the valuation date. The exercise price for each cash-settled share-based payment transaction is nil since the beneficiary receives the full equivalent of a share upon exercise. There is no cash settlement in the amount of the dividend payment with respect to the phantom or virtual shares upon exercise since cash settlements for dividend payments are made irrespective of any exercise. The term of an option in the event tree is always the maximum time as contractually agreed until the exercise event. The exercise events "death/invalidity" or "termination" are always assumed to occur in the middle of future periods. The expected volatility (standard deviation) of the percentage change of the price of the Aareal Bank share (return) is calculated using the standard deviation of the daily historical returns over a rolling reference period of 200 days, with the values being additionally smoothed subsequently. The yield curve for risk-free German zero-coupon government bonds, as published daily by the Deutsche Bundesbank applicable at the valuation date, will be used to discount future payments.

c) Volume of cash-settled share-based payment transactions of key executive staff:

The number of phantom or virtual shares outstanding for key executive staff has changed as follows:

	2009	2008
<i>Quantity (number)</i>		
Balance at 1 January	616,876.02	305,077.34
granted (+)	396,056.76	363,268.88
expired (-)	–	7,412.33
exercised (-)	137,085.80	44,057.87
Miscellaneous	4,895.33	–
Balance at 31 December	880,742.31	616,876.02
of which: exercisable	46,345.81	92,402.79

The phantom or virtual shares granted in the year under review have a weighted average fair value of € 5,740,318.51 (2008: € 6,503,881.84) as at the balance sheet date.

The weighted average share price of the phantom or virtual shares exercised in the year under review amounted to € 7.46 (2008: € 21.39).

The intrinsic value of the phantom or virtual shares outstanding at the reporting date amounted to € 11,012,023 (2008: € 3,132,678).

The share price used for the phantom shares exercised during the financial year 2009 was € 7.71 (2008: no options exercised). This corresponds to the weighted Xetra average price published by Bloomberg on the exercise date, as defined in the regulations for share-based remuneration for the members of the Management Board.

The share price used for the virtual shares exercised during the financial year 2009 was € 6.15 (2008: € 22.29). In accordance with the regulations for allocation and exercise of virtual shares, this share price is determined on the basis of the weighted Xetra average price as published by Bloomberg on the day the Annual Report is published and the four following trading days.

The phantom or virtual shares outstanding at 31 December 2009 have a limited contract term. The weighted average remaining contract term of these phantom or virtual shares amounts to 1,228.22 days (2008: 1,335.17 days).

d) Effects on financial position and performance

The total amount expensed for share-based payments was € 5.4 million during the financial year 2009 (2008: € -0.3 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 3.6 million (2008: € -0.3 million). The liability from share-based payments amounts to € 5.2 million (2008: € 0.9 million) as at 31 December 2009.